

Mr. Brian Oldaker, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Post Office Box 3480
Cleveland, Tennessee 37320

Re: AC# 3-LHH-L7 – Life Care Center of Hilton Head

Dear Mr. Oldaker:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period June 1, 1997 through November 30, 1997. That report was used to set the rate covering the contract periods beginning June 1, 1997.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Mr. Brian Oldaker, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Post Office Box 3480
Cleveland, Tennessee 37320

Re: Draft Report - AC# 3-LHH-L7 – Life Care Center of Hilton Head

Dear Mr. Oldaker:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to Mr. Jay S. Von Kannel, CPA, regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report - AC# 3-LHH-L7 – Life Care Center of Hilton Head

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact Mr. Jay S. Von Kannel, CPA within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

LIFE CARE CENTER OF HILTON HEAD

HILTON HEAD, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING JUNE 1, 1997
AC# 3-LHH-L7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING JUNE 1, 1997	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD JUNE 1, 1997 THROUGH SEPTEMBER 30, 1997	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1997 THROUGH NOVEMBER 30, 1997	B-2	5
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD DECEMBER 1, 1997 THROUGH MARCH 31, 1998	B-3	6
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD APRIL 1, 1998 THROUGH SEPTEMBER 30, 1998	B-4	7
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1998 THROUGH NOVEMBER 30, 1998	B-5	8
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS DECEMBER 1, 1998 THROUGH SEPTEMBER 30, 1999	B-6	9
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED NOVEMBER 30, 1997 FOR THE CONTRACT PERIOD JUNE 1, 1997 THROUGH SEPTEMBER 30, 1997	C-1	10
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED NOVEMBER 30, 1997 FOR THE CONTRACT PERIODS OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1998	C-2	12
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED NOVEMBER 30, 1997 FOR THE CONTRACT PERIODS OCTOBER 1, 1998 THROUGH SEPTEMBER 30, 1999	C-3	14
ADJUSTMENT REPORT	1	16
COST OF CAPITAL REIMBURSEMENT ANALYSIS FOR THE CONTRACT PERIOD JUNE 1, 1997 THROUGH SEPTEMBER 30, 1997	2	19

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
COST OF CAPITAL REIMBURSEMENT ANALYSIS FOR THE CONTRACT PERIODS OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1998	3	21
COST OF CAPITAL REIMBURSEMENT ANALYSIS FOR THE CONTRACT PERIODS OCTOBER 1, 1998 THROUGH SEPTEMBER 30, 1999	4	23

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 25, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of Hilton Head, for the contract periods beginning June 1, 1997, and for the six month cost report period ended November 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contracts between the Department of Health and Human Services and Life Care Center of Hilton Head dated as of June 1, 1997 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
August 25, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF HILTON HEAD
Computation of Rate Change
For the Contract Periods
Beginning June 1, 1997
AC# 3-LHH-L7

	06/01/97- <u>09/30/97</u>	10/01/97- <u>11/30/97</u>	12/01/97- <u>03/31/98</u>	04/01/98- <u>09/30/98</u>	10/01/98- <u>11/30/98</u>	12/01/98- <u>09/30/99</u>
Interim Reimbursement Rate (1)	\$88.04	\$95.03	\$95.03	\$91.75	\$94.60	\$95.35
Adjusted Reimbursement Rate	<u>81.49</u>	<u>88.58</u>	<u>92.14</u>	<u>88.87</u>	<u>91.73</u>	<u>92.48</u>
Decrease in Reimbursement Rate	\$ <u>6.55</u>	\$ <u>6.45</u>	\$ <u>2.89</u>	\$ <u>2.88</u>	\$ <u>2.87</u>	\$ <u>2.87</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period June 1, 1997 Through September 30, 1997
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$48.26	\$39.84	\$39.84
Dietary	<u>-</u>	<u>12.24</u>	<u>9.46</u>	<u>9.46</u>
Subtotal	\$ <u>-</u>	60.50	49.30	49.30
Laundry/Housekeeping/Maint.	\$ -	8.88	7.32	7.32
Administration & Med. Rec.	<u>-</u>	<u>14.82</u>	<u>8.60</u>	<u>8.60</u>
Subtotal	\$ <u>-</u>	84.20	\$ <u>65.22</u>	65.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		\$ <u>93.33</u>		74.35
Inflation Factor (N/A)				-
Cost of Capital				6.89
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For General Services and Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 \$ <u>81.49</u>

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1997 Through November 30, 1997
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.26	\$44.95	
Dietary		12.24	9.74	
Laundry/Housekeeping/Maint.		<u>8.88</u>	<u>7.72</u>	
Subtotal	\$ <u>-</u>	69.38	62.41	\$62.41
Administration & Med. Rec.	\$ <u>-</u>	<u>14.82</u>	<u>9.45</u>	<u>9.45</u>
Subtotal		84.20	<u>\$71.86</u>	71.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$93.33</u>		80.99
Inflation Factor (N/A)				-
Cost of Capital				7.09
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.58</u>

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period December 1, 1997 Through March 31, 1998
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.26	\$44.95	
Dietary		12.24	9.74	
Laundry/Housekeeping/Maint.		<u>8.88</u>	<u>7.72</u>	
Subtotal	\$ <u>-</u>	69.38	62.41	\$62.41
Administration & Med. Rec.	\$ <u>-</u>	<u>14.82</u>	<u>9.45</u>	<u>9.45</u>
Subtotal		84.20	<u>\$71.86</u>	71.86
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$93.33</u>		80.99
Inflation Factor (4.40%)				3.56
Cost of Capital				7.09
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$92.14</u>

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1998 Through September 30, 1998
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.26	\$41.81	
Dietary		12.24	9.74	
Laundry/Housekeeping/Maint.		<u>8.88</u>	<u>7.72</u>	
Subtotal	\$ <u>-</u>	69.38	59.27	\$59.27
Administration & Med. Rec.	\$ <u>-</u>	<u>14.82</u>	<u>9.45</u>	<u>9.45</u>
Subtotal		84.20	<u>\$68.72</u>	68.72
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$93.33</u>		77.85
Inflation Factor (4.40%)				3.43
Cost of Capital				7.09
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.87</u>

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.26	\$43.39	
Dietary		12.24	9.93	
Laundry/Housekeeping/Maint.		<u>8.88</u>	<u>8.11</u>	
Subtotal	\$ <u>-</u>	69.38	61.43	\$61.43
Administration & Med. Rec.	\$ <u>-</u>	<u>14.82</u>	<u>10.90</u>	<u>10.90</u>
Subtotal		84.20	<u>\$72.33</u>	72.33
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$93.33</u>		81.46
Inflation Factor (3.60%)				2.93
Cost of Capital				7.09
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$91.73</u>

LIFE CARE CENTER OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-LHH-L7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.26	\$43.39	
Dietary		12.24	9.93	
Laundry/Housekeeping/Maint.		<u>8.88</u>	<u>8.11</u>	
Subtotal	\$ <u>-</u>	69.38	61.43	\$61.43
Administration & Med. Rec.	\$ <u>-</u>	<u>14.82</u>	<u>10.90</u>	<u>10.90</u>
Subtotal		84.20	<u>\$72.33</u>	72.33
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		.70		.70
Medical Supplies & Oxygen		4.42		4.42
Taxes and Insurance		1.54		1.54
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$93.33</u>		81.46
Inflation Factor (3.60%)				2.93
Cost of Capital				7.09
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
Minimum Wage and CNA Add-Ons				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$92.48</u>

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1997
For the Contract Period June 1, 1997 Through September 30, 1997
AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$ 751,668	\$ 490 (5) 1,780 (6) 1,083 (7)	\$ 1,100 (7)	\$ 753,921
Dietary	190,154	1,102 (7)	-	191,256
Laundry	20,888	1,082 (7)	-	21,970
Housekeeping	74,734	1,361 (7)	-	76,095
Maintenance	41,255	-	601 (7)	40,654
Administration & Medical Records	161,053	2,245 (7) 11,399 (10) 62,488 (14)	5,566 (7) 175 (8)	231,444
Utilities	38,643	-	-	38,643
Special Services	11,922	8,930 (8)	2,001 (7) 7,854 (9)	10,997
Medical Supplies & Oxygen	93,699	2,395 (7)	4,850 (5) 5,529 (6) 5,202 (8) 11,399 (10)	69,114
Taxes & Insurance	36,496	-	12,463 (4)	24,033
Legal Fees	-	-	-	-

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1997
For the Contract Period June 1, 1997 Through September 30, 1997
AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	113,123	4,394 (3)	6,120 (1) 2,482 (2) <u>1,347 (11)</u>	107,568
	<u> </u>	<u> </u>		<u> </u>
Subtotal	1,533,635	98,749	66,689	1,565,695
Ancillary	27,801	3,749 (6)	-	31,550
Non-Allowable	401,395	6,120 (1) 2,482 (2) 3,376 (4) 1,256 (5) 7,854 (9) <u>1,347 (11)</u>	4,394 (3) 3,553 (8) 62,488 (14)	353,395
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$1,962,831</u>	<u>\$124,933</u>	<u>\$137,124</u>	<u>\$1,950,640</u>
TOTAL PATIENT DAYS	<u>15,621</u>	<u>-</u>	<u>-</u>	<u>15,621</u>
TOTAL BEDS	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1997
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 751,668	\$ 490 (5) 1,780 (6) 1,083 (7)	\$ 1,100 (7)	\$ 753,921
Dietary	190,154	1,102 (7)	-	191,256
Laundry	20,888	1,082 (7)	-	21,970
Housekeeping	74,734	1,361 (7)	-	76,095
Maintenance	41,255	-	601 (7)	40,654
Administration & Medical Records	161,073	2,245 (7) 11,399 (10) 62,488 (14)	5,566 (7) 175 (8)	231,464
Utilities	38,643	-	-	38,643
Special Services	11,922	8,930 (8)	2,001 (7) 7,854 (9)	10,997
Medical Supplies & Oxygen	93,699	2,395 (7)	4,850 (5) 5,529 (6) 5,202 (8) 11,399 (10)	69,114
Taxes and Insurance	36,496	-	12,463 (4)	24,033
Legal Fees	-	-	-	-

LIFE CARE CENTER OF HILTON HEAD

Summary of Costs and Total Patient Days

For the Cost Report Period Ended November 30, 1997

For the Contract Periods October 1, 1997 Through September 30, 1998

AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	116,036	4,394 (3)	6,120 (1) 2,482 (2) <u>1,020 (12)</u>	110,808
	<u> </u>	<u> </u>		<u> </u>
Subtotal	1,536,568	98,749	66,362	1,568,955
Ancillary	27,801	3,749 (6)	-	31,550
Non-Allowable	398,462	6,120 (1) 2,482 (2) 3,376 (4) 1,256 (5) 7,854 (9) <u>1,020 (12)</u>	4,394 (3) 3,553 (8) 62,488 (14)	350,135
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$1,962,831</u>	<u>\$124,606</u>	<u>\$136,797</u>	<u>\$1,950,640</u>
Total Patient Days	<u>15,621</u>	<u>-</u>	<u>-</u>	<u>15,621</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended November 30, 1997
For the Contract Periods October 1, 1998 Through September 30, 1999
AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$ 751,668	\$ 490 (5) 1,780 (6) 1,083 (7)	\$ 1,100 (7)	\$ 753,921
Dietary	190,154	1,102 (7)	-	191,256
Laundry	20,888	1,082 (7)	-	21,970
Housekeeping	74,734	1,361 (7)	-	76,095
Maintenance	41,255	-	601 (7)	40,654
Administration & Medical Records	161,073	2,245 (7) 11,399 (10) 62,488 (14)	5,566 (7) 175 (8)	231,464
Utilities	38,643	-	-	38,643
Special Services	11,922	8,930 (8)	2,001 (7) 7,854 (9)	10,997
Medical Supplies & Oxygen	93,699	2,395 (7)	4,850 (5) 5,529 (6) 5,202 (8) 11,399 (10)	69,114
Taxes & Insurance	36,496	-	12,463 (4)	24,033
Legal Fees	-	-	-	-

LIFE CARE CENTER OF HILTON HEAD

Summary of Costs and Total Patient Days

For the Cost Report Period Ended November 30, 1997

For the Contract Periods October 1, 1998 Through September 30, 1999

AC# 3-LHH-L7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	116,369	4,394 (3)	6,120 (1) 2,482 (2) <u>1,377 (13)</u>	110,784
	<u> </u>	<u> </u>		<u> </u>
Subtotal	1,536,901	98,749	66,719	1,568,931
Ancillary	27,801	3,749 (6)	-	31,550
Non-Allowable	398,129	6,120 (1) 2,482 (2) 3,376 (4) 1,256 (5) 7,854 (9) <u>1,377 (13)</u>	4,394 (3) 3,553 (8) 62,488 (14)	350,159
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$1,962,831</u>	<u>\$124,963</u>	<u>\$137,154</u>	<u>\$1,950,640</u>
Total Patient Days	<u>15,621</u>	<u>-</u>	<u>-</u>	<u>15,621</u>
Total Beds	<u>88</u>			

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended November 30, 1997
AC# 3-LHH-L7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$228,358	
	Nonallowable	6,120	
	Fixed Assets		\$207,386
	Accumulated Depreciation		20,972
	Cost of Capital		6,120
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Other Equity	74,739	
	Nonallowable	2,482	
	Accumulated Amortization		6,622
	Loan Cost		68,117
	Cost of Capital		2,482
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Cost of Capital	4,394	
	Nonallowable		4,394
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Accounts Payable	9,087	
	Nonallowable	3,376	
	Taxes and Insurance		12,463
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
5	Retained Earnings	3,104	
	Nursing	490	
	Nonallowable	1,256	
	Medical Supplies		4,850
	To properly charge expense applicable to the prior period, reclassify expense to the proper cost center, and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1 and 2304 DH&HS Expense Crosswalk		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended November 30, 1997
AC# 3-LHH-L7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	1,780	
	Ancillary	3,749	
	Medical Supplies		5,529
	To reclassify expense to the proper cost center		
	State Plan, Attachment 4.19D		
	DH&HS Expense Crosswalk		
7	Restorative	1,083	
	Dietary	1,102	
	Laundry	1,082	
	Housekeeping	1,361	
	Medical Records	2,245	
	Medical Supplies	2,395	
	Nursing		1,100
	Maintenance		601
	Administration		5,566
	Special Services		2,001
	To properly classify salary and fringe benefit expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Special Services	8,930	
	Administration		175
	Medical Supplies		5,202
	Nonallowable		3,553
	To adjust special (ancillary) services		
	State Plan, Attachment 4.19D		
9	Nonallowable	7,854	
	Special Services		7,854
	To remove therapy expense in excess of applicable cost limitations		
	HIM-15-1, Section 1400		
10	Medical Records	11,399	
	Medical Supplies		11,399
	To reclassify expense to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		

LIFE CARE CENTER OF HILTON HEAD
Adjustment Report
Cost Report Period Ended November 30, 1997
AC# 3-LHH-L7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable Cost of Capital To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the rate period 6/1/97 - 9/30/97)	1,347	1,347
12	Nonallowable Cost of Capital To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the rate periods 10/1/97 - 9/30/98)	1,020	1,020
13	Nonallowable Cost of Capital To adjust capital return State Plan, Attachment 4.19D (This adjustment applies only to the rate periods 10/1/98 - 9/30/99)	1,377	1,377
14	Administration Nonallowable To reverse DH&HS adjustment to remove undocumented home office cost allocation HIM-15-1, Section 2304	62,488	62,488
TOTAL ADJUSTMENTS		<u>\$442,618</u>	<u>\$442,618</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LIFE CARE CENTER OF HILTON HEAD
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended November 30, 1997
 For the Contract Period June 1, 1997 Through September 30, 1997
 AC# 3-LHH-L7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.0472</u>	<u>2.0472</u>	
Deemed Asset Value (Per Bed)	31,973	31,973	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,406,812	1,406,812	
Improvements Since 1981	97,393	33,251	
Accumulated Depreciation at 11/30/97	<u>(584,586)</u>	<u>(378,942)</u>	
Deemed Depreciated Value	919,619	1,061,121	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	64,373	74,278	
Number of Days in Period	<u>183/365</u>	<u>183/365</u>	
Adjusted Annual Return	32,275	37,241	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	32,275	37,241	
Depreciation Expense	11,937	25,889	
Amortization Expense	318	-	
Capital Related Income Offsets	(46)	(46)	
Allocation of Capital Expense to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	44,484	63,084	\$107,568
Total Patient Days (Minimum 97% Occupancy)	<u>7,811</u>	<u>7,810</u>	<u>15,621</u>
Cost of Capital Per Diem	\$ <u>5.70</u>	\$ <u>8.08</u>	\$ <u>6.89</u>

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 1997
For the Contract Period June 1, 1997 Through September 30, 1997
AC# 3-LHH-L7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>12.10</u>	\$ <u>8.08</u>
Reimbursable Cost of Capital Per Diem		\$6.89
Cost of Capital Per Diem		<u>6.89</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

LIFE CARE CENTER OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended November 30, 1997
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-LHH-L7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1144</u>	<u>2.1144</u>	
Deemed Asset Value (Per Bed)	33,022	33,022	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,452,968	1,452,968	
Improvements Since 1981	97,393	33,251	
Accumulated Depreciation at 11/30/97	<u>(584,586)</u>	<u>(378,942)</u>	
Deemed Depreciated Value	965,775	1,107,277	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	67,604	77,509	
Number of Days in Period	<u>183/365</u>	<u>183/365</u>	
Adjusted Annual Return	33,895	38,861	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	33,895	38,861	
Depreciation Expense	11,937	25,889	
Amortization Expense	318	-	
Capital Related Income Offsets	(46)	(46)	
Allocation of Capital Expense to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	46,104	64,704	\$110,808
Total Patient Days (Minimum 97% Occupancy)	<u>7,811</u>	<u>7,810</u>	<u>15,621</u>
Cost of Captital Per Diem	\$ <u><u>5.90</u></u>	\$ <u><u>8.28</u></u>	\$ <u><u>7.09</u></u>

LIFE CARE CENTER OF HILTON HEAD

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended November 30, 1997

For the Contract Periods October 1, 1997 Through September 30, 1998

AC# 3-LHH-L7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>12.10</u>	\$ <u>8.28</u>
Reimbursable Cost of Capital Per Diem		\$7.09
Cost of Capital Per Diem		<u>7.09</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

LIFE CARE CENTER OF HILTON HEAD
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended November 30, 1997
 For the Contract Periods October 1, 1998 Through September 30, 1999
 AC# 3-LHH-L7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,499,036	1,499,036	
Improvements Since 1981	97,393	33,251	
Accumulated Depreciation at 11/30/97	<u>(584,586)</u>	<u>(378,942)</u>	
Deemed Depreciated Value	1,011,843	1,153,345	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	67,793	77,274	
Number of Days in Period	<u>183/365</u>	<u>183/365</u>	
Adjusted Annual Return	33,989	38,743	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	33,989	38,743	
Depreciation Expense	11,937	25,889	
Amortization Expense	318	-	
Capital Related Income Offsets	(46)	(46)	
Allocation of Capital Expense to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	46,198	64,586	\$110,784
Total Patient Days (Minimum 97% Occupancy)	<u>7,811</u>	<u>7,810</u>	<u>15,621</u>
Cost of Captital Per Diem	\$ <u><u>5.91</u></u>	\$ <u><u>8.27</u></u>	\$ <u><u>7.09</u></u>

LIFE CARE CENTER OF HILTON HEAD

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended November 30, 1997

For the Contract Periods October 1, 1998 Through September 30, 1999

AC# 3-LHH-L7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>12.10</u>	\$ <u>8.27</u>
Reimbursable Cost of Capital Per Diem		\$7.09
Cost of Capital Per Diem		<u>7.09</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>